

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: 1998-99 Audit Work Plan

ITEM NUMBER: 5

ATTACHMENTS: 2

ACTION: X

DATE OF MEETING: September 3, 1998

INFORMATION:

PRESENTER: Mr. Lee

In accordance with the Standards for the Professional Practice of Internal Auditing, we are submitting, for your approval, the attached annual audit plan for the 1998-99 fiscal year, and the report of audits completed in the 1997-98 fiscal year. The plan presents internal audits, school district audits, compliance reviews, and other special projects requested by management. We have been operating during the first quarter according to the previously approved audit work plan.

METHODOLOGY

Having experienced unanticipated staff turnover, reassignment of staff between internal audits and school district audits, audit scope changes and lower than projected productive hours, we realized that the 1997-98 audit plan was more than what could be accomplished in one year.

This report will show audits completed and audits in process from 1997-98 fiscal year as well as new audits assigned in the 1998-99 fiscal year. In addition to the 1997-98 audit plan, we will have four new audits started, three of which will be completed during 1998 - 99. Eighteen audits were carried over from the 1997-98 work plan, (shown under budgeted hours 1998/99) of which 7 will be completed during 1998-99, one audit (SAM 20013) will be started in 1998-99 and completed in 1999-2000. The remaining ten audits from the 1997-98 work plan will be deferred to 1999-2000.

To effectively control the audit projects, we monitor the productive hours of each auditor; total hours spent on each audit and projected completion dates. Total available hours or productive hours are used to determine the number of audits we are able to complete based on projected staffing level. For internal audits, productive hours are set at 68% or 113 hours of audit time for each auditor per month. For school district audits and compliance reviews, productive hours are set at 65% or 108 hours of audit time for each auditor or analyst per month. Non-productive hours are activities that are not directly related to the performance of audits or case assignments. These include special projects such as board agenda preparation, technical support, staff training, and administrative or functions. support The percentages are set based on our experience from the previous year and projected current year activities.

MANAGEMENT REQUESTS

We were requested by management to perform the pre-implementation review of the START project and subsequently spent 644 hours on the project with a budget of 200 hours. This prompted us to increase the budgeted hours to a higher amount of 600 hours for the current fiscal year. The Office of Audits was also requested to perform an audit of the blank check stock to ensure check accountability, and we incurred 70 hours for the project.

PLAN SUMMARY

The 1998-99 audit plan covers all branches within STRS except the Governmental Affairs and Program Development Branch. The projected total hours available for the year will total 13,213 hours, representing 4,763 hours for internal auditors, 4,875 hours for school district auditors and 3,575 hours for compliance analysts. The hours for the two clerical support personnel, one Audit Supervisor and the Chief Auditor are not accounted for in the annual audit plan.

INTERNAL AUDITS

Seven final audit reports were issued during the 1997-98 fiscal year. The Alternative Investments audit was moved to the draft report stage in August 1998, and the Sale and Purchase of Equity audit is near the draft report stage. For the new fiscal year, the Internal Audit unit will continue to work on the START project and complete nine audits in progress, eight audits deferred from the 1997-98 fiscal year, start and complete three audits, and begin the State Administrative Manual Section 20000 audit. The Year 2000 compliance review is among the three audits to be started and completed during 1998-99.

SCHOOL DISTRICT

Even though we fell short of our goal of completing 23 audits and starting 8 new audits during the year, we issued 14 final reports. Our findings have generated about \$615,000.00 of potential savings to STRS.

The backlog continues its drag on completing new audits. To eliminate the current backlog, we will not start any new audits until we complete the 21 audits in progress. We also will assign staff to complete 55 follow-up reviews on the old as well as the more current audits. The school district audit staff is working with our Quality and Training Services to find better ways of reviewing audits and getting the audits done more timely. New procedures will help us complete more audits in the future. We understand the Board has the desire for us to audit the Los Angeles Unified School District (LAUSD),

and we want to be able to start and timely complete the LAUSD audits once we are assigned with the task. This will require us to be completely finished with the old audits so that we can direct all of our attention to the LAUSD audits beginning next fiscal year.

COMPLIANCE REVIEW

Compliance reviews exceeded the projection of 35 cases. However, we are not satisfied that the optimum level of production has been achieved. The compliance team met and decided to attempt to complete at least 100 cases in 1998-99. The team is now more experienced with reviewing cases. The team also has developed understanding with other program units on how a case can be referred to us for review.

USE OF TEAMWORK

Teamwork is a continuous process. The START team has worked well together to develop internal control concerns with the START project. The internal audit team has worked to refine the audit process including how to develop the control risk matrices. The school district team is currently working with QT & S to streamline the audit process and the compliance team has been empowered to perform peer review of case work. Future staff meetings will have staff members take turns to be in charge of the meeting agendas.

INFORMATION TECHNOLOGY

We have reclassified one Associate Management Auditor position to EDP Auditor Specialist I. This position will help us perform Electronic Data Processing related audits. We have been recruiting for this position for the last two months and so far we have not made a selection. The position has been re-advertised to include advertisement with the Information Systems Audit and Control Association in Sacramento.

We plan to have extensive training on the use of the Audit Command Language (ACL) to facilitate our audits of the school districts and internal STRS operations. This will take normal productive hours away from performing audits, but it will be a good investment for future returns of more audits and higher quality products.

**OFFICE OF AUDITS
REPORT OF AUDITS COMPLETED
FOR THE YEAR ENDING: JUNE 30, 1998**

Attachment I
Item5/Budgets & Audits
September 3, 1998

| Risk | Office of Audits Objectives | Legend | Actual Audit Hours in 1997/98 | Budgeted Audit Hours in 1997/98 |
|--|---|--------------------------|-------------------------------|---------------------------------|
| CLIENT BENEFITS & SERVICES BRANCH | | | | |
| <u>Disability Services Division</u> | | | | |
| 2 | Benefit Application Process | <input type="checkbox"/> | 521 | 260 |
| <u>Service Retirement Division</u> | | | | |
| 1 | Processing Application of Client Benefits | <input type="checkbox"/> | 50 | 50 |
| INFORMATION/FINANCIAL SYSTEM BRANCH | | | | |
| <u>Accounting Division</u> | | | | |
| 1 | Financial & Management Reporting Process | <input type="checkbox"/> | 169 | 250 |
| 1 | Review of Blank Check Stock | <input type="checkbox"/> | 70 | 100 |
| • Benefit Accounting | | | | |
| 1 | Benefit Payments | <input type="checkbox"/> | 40 | 40 |

Risk Factor
1 - Biennial
2 - Triennial
3 - Quadrennial
4 - Sample

Legend
 - Audits completed (7)

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|------|---|--------------------------|-------------------------------|---------------------------------|
| | INVESTMENT BRANCH | | | |
| | <u>Investment Support Division</u> | | | |
| | • Investment Operations | | | |
| 1 | Cash Receipts & Disbursements | <input type="checkbox"/> | 230 | 300 |
| | ADMINISTRATION BRANCH | | | |
| 1 | SAM 20000 | <input type="checkbox"/> | 115 | 115 |
| | <u>Office of Audits Division</u> | | | |
| | CPA Coordination | <input type="checkbox"/> | 390 | 250 |
| | Total Hours for Auditors | | 1585 | 1365 |

Risk Factor
1 - Biennial
2 - Triennial
3 - Quadrennial
4 - Sample

Legend
 - Audits completed (7)

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**Attachment I
 Item5/Budgets & Audits
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| Risk | Office of Audits Objectives | Legend | Budgeted Audit Hours in 1997/98 | Actual Audit Hours / Audits 1997-98 |
|------|---|--------------------------|---------------------------------|-------------------------------------|
| | <ul style="list-style-type: none"> • School District Audits | | | |
| | Complete 23 Audits in Progress @ 170+ Hours | | 4,000 | 4,313 / 14 |
| | Follow-Up 20 Audits @ 36 Hours | <input type="checkbox"/> | 720 | 462 / 0 |
| | Start 8 New Audits @ 160 Hours | | 1,280 | 494 / 4 |
| | Total Hours for 4 Auditors | <input type="checkbox"/> | 6,000 | 5,269 |
| | | | | |

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 REPORT OF AUDITS COMPLETED
 FOR THE YEAR ENDING: JUNE 30, 1998**

**Attachment I
 Item5/Budgets & Audits
 September 3, 1998**

| Risk | Objectives | Budgeted Audit Hours 1997-98 | Actual Audit Hours/Cases 1997-98 |
|------|--|---|--|
| | <ul style="list-style-type: none"> • <u>Compliance Cases</u> Complete 35 cases in process @ 55 hours Opened & closed 28 cases in 1997-98 Follow-up 35 cases @ 10 hours Open 35 new cases @ 46+ hours Total Hours for 3 Retirement Program Specialist I's | <p style="text-align: center;">1925</p> <p style="text-align: center;">N/A</p> <p style="text-align: center;">350</p> <p style="text-align: center;"><u>1625</u></p> <p style="text-align: center;">3900</p> | <p style="text-align: center;">1791/29</p> <p style="text-align: center;">603/28</p> <p style="text-align: center;">51/10</p> <p style="text-align: center;"><u>380/16</u></p> <p style="text-align: center;">2825/83</p> |

Footnote: Audit hours are based on 65% or 108 hours per month productive hours for each RPSI.

**OFFICE OF AUDITS PROPOSED WORKPLAN
FOR 1998-99**

Attachment II
Item 5/Budgets & Audits
September 3, 1998

| Risk | Office of Audits Objectives | Legend | Actual Hours 1997/98 | Budgeted Hours 1998/99 | Budgeted Hours 1999/00 |
|------|--|--------|----------------------|------------------------|------------------------|
| | EXECUTIVE BRANCH | | | | |
| | • START | | | | |
| 1 | Assist START Project | ◆ | 644 | 600 | |
| | CLIENT BENEFITS & SERVICES BRANCH | | | | |
| | <u>Disability Services Division</u> | | | | |
| 1 | Payment & Adjustment of Benefits | ◆ | 594 | 56 | |
| | <u>Service Retirement Division</u> | | | | |
| 1 | Inactive Members Accounts | ■ | 0 | 350 | |
| 1 | Refund of Member Contributions | ■ | 0 | 350 | |
| | <u>Survivor Benefits Division</u> | | | | |
| 1 | Death Match Application Process | ◆ | 198 | 177 | |
| 1 | Survivor Benefits | ◆ | 188 | 300 | |

Risk Factor

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Legend

- ◆ - Audits in process from 97-98 (10)
- - New audits to be assigned in 98-99 (4)
- - Audits deferred from previous Plan (17)

Footnote: Audit hours based on 68% or 113 hrs/month productive hours from each auditor.

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|------|--|--------|----------------------|------------------------|------------------------|
| | INFORMATION & FINANCIAL SYSTEM BRANCH | | | | |
| | <u>Accounting Division</u> | | | | |
| | • Revenue & Special Accounting | | | | |
| 2 | Billing & Collecting Receivables From Districts | ○ | | 300 | |
| | • Benefit Accounting | | | | |
| 1 | Benefit Overpayments | ■ | 0 | 0 | 200 |
| 2 | Tax Withholding Reports & Deposits | ■ | 0 | 0 | 300 |
| | <u>Information Technology Services Division:</u> | | | | |
| | Year 2000 Review | ○ | | 500 | |
| | GOVERNMENTAL AFFAIRS & PROGRAM DEVELOPMENT BRANCH | | | | |
| | <u>Legislative & Actuarial Division</u> | | | | |
| 2 | Actuarial Valuations | ■ | 0 | 0 | 450 |

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|------|---|--------|----------------------|------------------------|------------------------|
| | <u>Cash Balance Plan Division</u> | | | | |
| 2 | Cash Balance Plan | ■ | 0 | 0 | 200 |
| | INVESTMENT BRANCH | | | | |
| | <u>Investment Support Division</u> | | | | |
| | • Equity | | | | |
| 1 | Purchase of Equities | ◆ | 224 | 24 | |
| 1 | Sale of Equities | ◆ | 225 | 24 | |
| 1 | Soft Dollars | ■ | 0 | 200 | |
| | • Fixed Income | | | | |
| 1 | Securities Lending | ■ | 0 | 400 | |
| 2 | Credit Enhancement | ■ | 0 | 0 | 200 |
| | • Investment Operations | | | | |
| 1 | Cash Forecasts | ■ | 0 | 0 | 200 |
| | • Alternative Investments | | | | |
| 1 | Purchase of Partnership Interests | ◆ | 164 | 8 | |

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|---------------------------------------|------------------------------------|---------------|-----------------------------|-------------------------------|-------------------------------|
| 1 | Sales of Partnership Interests | ◆ | 164 | 8 | |
| 1 | Analysis of Proposals | ◆ | 164 | 8 | |
| 1 | Evaluation of Portfolio | ◆ | 164 | 8 | |
| INVESTMENT BRANCH | | | | | |
| • Real Estate Investments | | | | | |
| 1 | Acquisitions of Real Estate | ■ | 0 | 200 | |
| 1 | Dispositions of Real Estate | ■ | 0 | 200 | |
| 1 | Opportunity Fund | ■ | 0 | 0 | 200 |
| 1 | Preparation of Proposals | ■ | 0 | 0 | 200 |
| 1 | Evaluation of Real Estate Advisors | ■ | 0 | 0 | 200 |
| • Property Managers | | | | | |
| 2 | Maintenance of Property | ■ | 0 | 0 | 200 |
| ADMINISTRATION BRANCH | | | | | |
| <u>Administrative Services</u> | | | | | |
| 1 | SAM 20000 97/98,98/99 | ○ | | 450 | 1050 |
| | SAM 20013 | ■ | 0 | 100 | 400 |

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|-------------|---|---------------|-----------------------------|-------------------------------|-------------------------------|
| | <u>Office of Audits Division</u> | | | | |
| | CPA Coordination | ● | | 250 | |
| | Risk Assessment Update | ■ | 0 | 250 | |
| | Total Actual Hours | | 2,729 | 4,763 | |
| | Total Hours of Audits Completed in 97/98 | | 1585 | | |
| | Total Hours for the Year | | 4,314 | | |

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|------|--|--|---|-------------------------------------|
| | <ul style="list-style-type: none"> • School District Audits Complete 21 Audits in Progress @ 110 Hours Follow-Up 55 Audits @ 38 Hours Respond to Executive Reviews & audit issues Total Hours for 3.75 Auditors | <ul style="list-style-type: none"> ■ ■ | <p style="text-align: center;">2,310</p> <p style="text-align: center;">2,090</p> <p style="text-align: center;">475</p> <hr/> <p style="text-align: center;">4,875</p> | |

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|------|---|--|----------------------------------|
| | <ul style="list-style-type: none"> • <u>Compliance Cases</u> Complete 21 cases in Process @ 20 hours Complete 90 cases opened in 1998-99 @ 30 hours Follow-up 15 cases @ 10 hours Open 20 new cases @ 15.25 hours Total Hours for 3 Retirement Program Specialist I's | <p style="text-align: center;">420</p> <p style="text-align: center;">2700</p> <p style="text-align: center;">150</p> <p style="text-align: center;"><u>305</u></p> <p style="text-align: center;">3575</p> | |

Footnote: Audit hours are based on 65% or 108 hours per month productive hours for each RPSI.